

Message Text

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C O N F I D E N T I A L JAKARTA 15530

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E.O. 11652: GDS

TAGS: EFIN, ID

SUBJECT: BANK INDONESIA SHORT-TERM FINANCING

REFS: (A) JAKARTA 15134 (B) STATE 294343

1. RESPONSE TO BOTH QUESTIONS RAISED REF B IS NO RPT NO. PERTAMINA'S AND GOVERNMENT INSTITUTIONS' LOCAL COSTS HAVE, AS RESULT PRE-1975 PRACTICES AND INFLATION, EXCEEDED RESOURCES AVAILABLE TO MEET SOME OBLIGATIONS. IN PERTAMINA'S CASE, AS DEPARTMENT AWARE, BANK INDONESIA (BI) GOVERNOR NOTIFIED FOREIGN CREDITORS IN MARCH THAT GOI, THROUGH BI, WOULD "PAY OFF" ALL PERTAMINA LEGITIMATE FOREIGN OBLIGATIONS. AS RESULT THAT COMMITMENT AND ON-GOING FX REQUIREMENTS OF GOI, FINANCIAL AUTHORITIES OF GII HAVE ARRANGED TWO MORGAN GUARANTY BALANCE OF PAYMENT LOANS TOTALING \$850 MILLION AND \$150 MILLION BANK OF TOKYO CREDIT AS WELL AS SECOND BANK OF TOKYO CREDIT FOR \$50 MILLION DENOMINATED IN YEN. MORE RECENTLY PRESIDENTIAL INSTRUCTION NUMBER 17 AUTHORIZED BAPPENAS DEPUTY CHAIRMAN AND MINISTER OF STATE FOR ADMINISTRATIVE REFOR, J. B. SUMARLIN, AND MINISTER OF TRADE, RADIUS PRAWIRO, TO ASSURE PERTAMINA RUPIAH CREDITORS THAT GOI WOULD UNDERTAKE TO PAY PERTAMINA'S RUPIAH TANKER OBLIGATIONS EITHER IMMEDIATELY OR

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ON RENEGOTIATED BASIS.

2. IN MANAGING IMPACT OF PETAMINA DEBT ON OVERALL GOVERNMENT FINANCES, GOVERNMENT FINANCIAL AUTHORITIES (BAPPENAS, BI, AND MINFIN) HAVE APPLIED DISCIPLINE TO DIRECTORS GENERAL OF GOI OPERATING AGENCIES AS INDICATED BY PREVIOUSLY REPORTED ACTIONS SUCH AS CANCELLATION TWO EXIM CREDITS FOR JAKARTA POWER TRANSMISSION AND GRESIK POWER; AND SUSPENSION OF NEGOTIATIONS FOR THREE BRITISH, TWO GERMAN, ONE BELGIAN AND ONE FRENCH EXPORT CREDIT AGENCY FINANCED PROJECTS. GOVERNMENT'S RUPIAH PROBLEM HAS BEEN COMPUDED BY FACT THAT REVENUE HAS NOT RPT NOT MET PROJECTED LEVELS BECAUSE OF REDUCTION IN LEVEL OF ECONOMIC ACTIVITY AND CONTINUED POOR TAX ADMINISTRATION.

3. THERE WAS SOME EVIDENCE THAT GOI OPERATING AGENCIES HAD BEGUN UNCOORDINATED DEBT-INCURRING ACTIVITIES SUBSEQUENT TO GOI ANNOUNCEMENT AT 1973 IGGI MEETING THAT NUMBER OF PROJECTS LISTED IN "BLUE BOOK" THAT WOULD HAVE BEEN CONSIDERED FOR FINANCING THROUGH CONCESSIONARY FUNDING WOULD BE FINANCED BY EXPORTERS' CREDITS (I.E. U.S. EXIMBANK, COFACE, ECGD, HERMES, ETC.). DURING 1974 AND EARLY 1975 REPRESENTATIVES OF OPERATING DIRECTORAGES GENERAL, SUCH AS PLN, SEA COMMUNICATIONS, STATE RAILWAYS, WATER RESOURCES, PERUMTEL, ETC., HAD BEEN SEEKING SUCH FINANCING IN COMPETITION WITH ONE ANOTHER AND PERTAMINA. APPROACHES WERE MADE TO FOREIGN GOVERNMENT LENDING AND GUARANTEEING AGENCIES AND TO PRIVATE SECTOR BANKS FOR FUNDING FOR APPROVED PROJECTS TO SUPPORT GOVERNMENT EXPORTERS' CREDITS.

4. GOI FINANCIAL ADVISORS, KUHN LOEB, WARBERG AND LAZARD FRERES, WERE LISTENED TO AND GOI FINANCIAL AUTHORITES BEGAN TO EFFECTIVELY APPLY DISCIPLINE TO DIRECTORS GENERAL IN SPRING 1975. ONE RESULT OF THIS HAS BEEN SEQUENTIAL STEPS TO RAISE COMMERCIAL FUNDS -- I.E. MORGAN GUARANTY CREDIT NO. 1, BANK OF TOKYO CREDIT NO. 1, DOMSAT/EXIM COMMERCIAL FINANCING, MORGAN GUARANTY CREDIT NO. 2, AND BANK OF TOKYO CREDIT NO. 2. WE WILL NOT SEE REMAINING EXIM CREDITS' COMMERCIAL PORTIONS BEING NEGOTIATED.

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5. THUS FAR DISCIPLINE WAS HELD. THERE IS LITTLE DOUBT IN MISSION'S JUDGMENT HOWEVER THAT DIRECTORS GENERAL WILL CONTINUE TO SEEK WAYS TO ACQUIRE THEIR OWN FINANCING FOR THEIR AGENCY'S APPROVED PROJECTS AS LISTED IN "BLUE BOOK," BUT WITH CONTINUED HIGH LEVEL POLITICAL LEADERSHIP SUPPORT WE BELIEVE GOI FINANCIAL MANAGERS' AUTHORITY SUFFICIEHT TO CONTROL SUCH EFFORTS.
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